

# GST In India & Its Impact on Common Man

Sonia

M.com (NET) M.D. University, Rohtak

---

## ABSTRACT

GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010, but due to political issues and conflicting interests of various stakeholders it is still pending. Goods and Service Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services. GST is termed as biggest tax reform In Indian Tax Structure. It will not be an additional tax, it will include central excise duty, service tax additional duties of customers at the central level, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. The purpose of GST is to replace all these taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax. This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused Impact of GST and challenges faced by India in execution.

**Keywords:** Indian Tax Structure, Indirect tax, Goods and Service Tax (GST), Indian economy, Common Man

---

## INTRODUCTION

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 160 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST& implement from 1<sup>st</sup> July 2017.

## LITERATURE REVIEW

Ehtisham Ahmed and Satya Poddar (2009)<sup>3</sup> studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST. Dr. R. Vasanthagopal (2011)<sup>2</sup> studied, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Agogo Mawuli (May 2014)<sup>1</sup> studied, “Goods and Service Tax-An Appraisal” and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Pinki, SupriyaKamma and RichaVerma (July 2014)<sup>7</sup> studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government , state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Monika Sehrawat, and Upasana Dhanda, (December 2015) studied “GST IN INDIA: A KEY TAX REFORM” and concluded that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation.

Dr. P Vijayaraghavan<sup>1</sup> and Mr. Muhammed Unais (April 2017) Studied “Impact of GST on Indian Economy and concluded that the implementation of GST will reduce tax burden on manufacturers and thus encourages for the higher production. This process will increase the export of India and it will increase the total GNP. Avoidance of cascading effect empowers the manufacturers to produce to their optimum capacity and retards growth.

### OBJECTIVE OF STUDY

The study has following objectives:

- 1) To recognize the concept of GST.
- 2) To compare current rate with GST rate.
- 3) To study the Impact of GST on common man
- 4) To evaluate the challenges of GST.
- 5) To furnish information for further research work on GST.

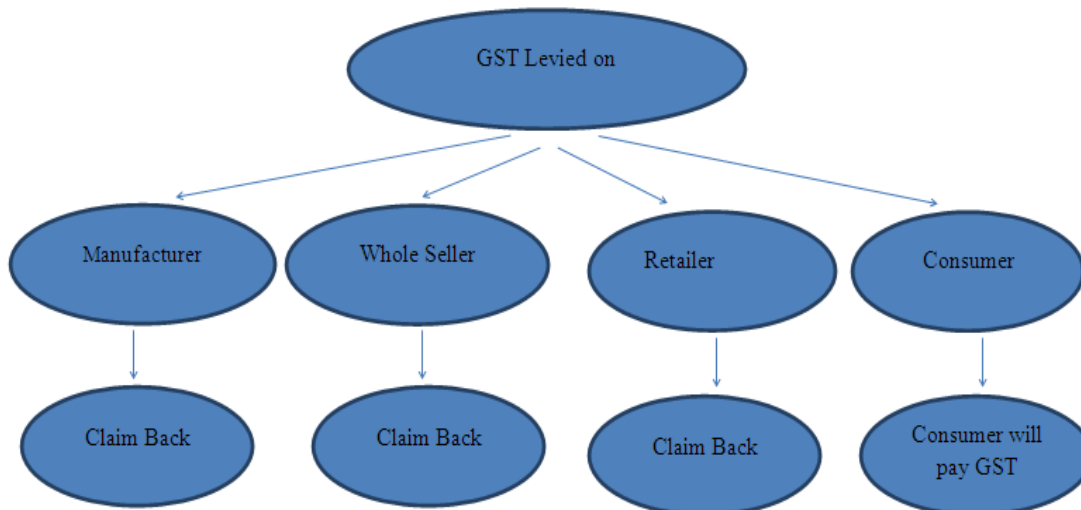
### RESEARCH METHODOLOGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines, internet. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

### CONCEPT

Presently, there are around 160 countries that have implemented GST/VAT in some form or other. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax levied on consumption of goods and services. France was the first to introduce GST or Goods and Services tax. In India the Rajya Sabha unanimously passed the constitution (22nd amendment) bill 2014, on 3<sup>rd</sup> August 2016 with 203 votes in favour. All parties, except the AIADMK, backed the bill. GST would be a comprehensive indirect tax on manufacture consumption and sale of goods and services throughout India, to replace taxes levied by central Govt. and state Govt. GST would be levied and collected at each stage of sale or purchase of goods and services. Taxable goods and services are not distinguished from one another and are taxed at single rate in supply chain till goods and services reach the consumer. The easy passage was facilitated by the congress after the Govt. made key changes, including scrapping of 1 percent manufacturing tax and incorporating clearer provision for compensating state for revenue loss for five years. Mr. Arun Jaitley assured the house that the tax rates would be kept as low as possible.

As today some taxes are levied by the state Govt. and some are levied by central Govt. How nice will it be if there is only one unified tax rate instead of all these taxes, GST is applied on goods and services at the place where actual consumption happens. It is based on the Destination Principle. GST would be levied and collected at each stage of sale or purchase of goods and services. Goods and services are not distinguished and are taxed at single rate in supply chain till the goods and services reach consumer. It is the consumer of goods and services who bears the tax. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.



Administrative responsibility would be generally rest with single authority to buy tax on goods and services. Under the current system, levies are charged at multiple points and by different authorities, for example at the police at checkpoints, by state Govt. agencies at inter-state borders. This encourages corruption, that a common nationwide tax is expected to eliminate. It is believed that it would make the tax procedure more fair, transparent and efficient. The current tax structure does not allow business person to take tax credit. There are many chances of overlapping or doubling of taxation at every step of supply chain. This will be eliminated with the implementation of GST. Indian Govt. is opting for dual system of GST. This system will have two components which will be known as: -

- Central Goods and Service Tax (CGST)
- State Goods and Service Tax (SGST)

The current taxes like excise duties, service tax, custom duty etc. will be merged under GST. The taxes like sales tax, entertainment tax, VAT, and other state taxes will be included in GST.

#### CURRENT RATES V/S GST RATE

Slabs	New GST rates	Current rates	Products
1	5%	Upto 9%	Edible oil, spices, tea, coffee
2	12%	9%-15%	Computers, processed food
3	18%	15%-21%	Soaps, oil, shaving sticks
4	28%	21%	Luxury goods (luxury cars, tobacco, aerated drinks)

#### IMPACT OF GST ON COMMON MAN

##### **Positive Impact of GST on the Common man or Advantages of GST:**

- A unified tax system removing a bundle of indirect taxes like VAT, CST, Service tax, CAD, SAD, Excise etc.
- A simplified tax policy as compared to earlier tax structure. However, it's not as simple as it seems to be, Check disadvantages below to grab more details.
- Removes cascading effect of taxes i.e. removes tax on tax.
- Due to lower burden of taxes on the manufacturing sector, the manufacturing costs will be reduced, hence prices of consumer goods likely to come down.
- Due to reduced costs some products like cars, FMCG etc. will become cheaper.
- This will help in lowering the burden on the common man i.e. you will have to shed less money to buy the same products which were earlier costly.
- The low prices will further lead to an increase in the demand/consumption of goods.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- The increased production will lead to more job opportunities in the long run. But, this can happen only if consumers actually get cheaper goods.
- It will curb circulation of black money. This can happen only if the "kacha bill" system, normally followed by traders and shopkeepers is put to check.
- A unified tax regime will lead to less corruption which will indirectly affect the common man.
- Most importantly, experts hope to see a positive impact of GST on Indian economy in the long run.

But, this is possible only if the actual benefit of GST is passed on to the final consumers. There are various other factors also like the seller's profit margin that determine the final price of goods. GST alone does not determine the final price of goods. The anti-profiteering clause has been inserted in the GST Act to protect the interest of the consumers.

For a detailed analysis, here are some good books on GST or Goods and Services tax that might help you as a beginner in understanding GST in a simple manner.

### Negative Impact of GST on the Common man or Disadvantages of GST:

- The first and the foremost point of concern : All small traders and service providers dealing in interstate supply of goods or services need to get registered, pay GST and file GST returns also irrespective of the sales/income they generate (whether high or low).
- The numbers of GST returns that you need to file i.e. you have to file 3 monthly returns, these amounts to total of (3\*12) 36 returns plus 1 annual return.Filing 37 returns in a year...Moreover, this applies to one state, if you function in different states, you need to register in each state separately and file the respective returns. It is too much for a small trader or service provider or an online service provider who has just started working.
- Although big businesses having ample of staff can handle the whole process very easily.But, what about small traders/service providers or individuals who have just started their business or service, it is getting a bit complex for them. A small exemption in this regard could have been a big sigh of relief for such people!Really hope to see some relaxation to it in the coming days.
- Service tax rate @ 15% is presently charged on the services. So,if GST is introduced at a higher rate which is likely to be seen in the near future,the cost of services will rise. GST shall be charged @18% on maximum services and shall reach upto 28% for few services. In simple words,all the services like telecom, banking, airline etc. will become more expensive.
- Increased cost of services means, an add on to your monthly expenses.
- You will have to reschedule your budgets to bear the additional services cost.
- Businessmen and service providers are still learning about the new laws. This will increase reliance on tax experts and professionals and further add to your business expenses.
- Being a new tax, it will take some time for the people to understand it completely.Its actual implications can be seen after a certain period of time.
- It is easier said than done.There are always some complications attached. It is a consumption based tax,so in case of services the place where service is provided needs to be determined.
- Proper invoicing and accounting needs to be done to ensure better compliance.However, GST Accounting Software are being developed in this regard by various companies.
- If actual benefit is not passed to the consumer and the seller increases his profit margin,the prices of goods can also see a rising trend.
- An increase in inflation might be seen initially that may come down gradually.A strict
- Check on profiteering activities will have to be done, so that the final consumer can enjoy the real benefits of GST.
- Although a large number of officers are being trained and systematic IT software is being developed for the successful implementation of GST. But,it will take some time for the people including the manufacturers,the wholesalers,the retailers or the final consumers to understand the whole process and apply it correctly.

GST training and Courses are being provided by the Government,various institutions and companies to educate the people all around.

However, GST or Goods and Services tax is a long term strategy planned by the Government and its positive impact shall be seen in the long run only.The rates of GST and how effectively GST is introduced in all the States and at the Centre also plays a crucial role in deciding the actual impact of GST on the common man.

### CHALLENGES OF GST

#### High Revenue Neutral Rate (RNR)

RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means ,the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. As per 13 finance commission the RNR should be 12% whereas state empowered committee demanding 26.68%. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other counties. Hungary implemented GST from 1/4/2014 with 7% rate. Due to high RNR.

- Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.
- Tax evasion and smuggling will increase.
- Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index.

So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government

### **COMPENSATION TO STATES**

Currently, VAT is highest contributor in tax revenue of state governments. But after GST reform this will subsumed along with surcharge and cess into GST. Due to which state governments will occur revenue loss for sure and they will be more dependent on finance commission for tax evolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission union has to compensate states for maximum of five years with tapering effects. For first three years 100% compensation reduced to 75% and 50% in fourth and fifth year respectively. This compensation by union will lead to fiscal burden and may not fulfill the fiscal deficit target of 3% by March 2017 announced by finance minister in 2015 budget. This fiscal target must be achieved for faster economy growth and full capital account convertibility in future.

Industrialized states will be at loss in GST regime due to its destination based feature. It will demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future. For temporarily relief to industrialized states additional 1% tax for two years on interstate sale and supply of goods is proposed in GST. But with 1% additional tax, the main objective of GST to minimize cascading effect of taxes is fading out. So, to minimize cascading effect this additional tax at least should not be levied on supply of interstate goods.

### **REGISTRATION THRESHOLD LIMIT**

At present there are different threshold limits for VAT (5 lacs), service tax (10 lacs) and excise duty (1.5 crore). But for implementation of GST common threshold limit for all indirect taxes is required. It will turn into a conflict between state and center. States want to fix the limit as 10 lacs opposing 25 lacs limit suggested by union. The lower threshold limit will broaden the tax base and increase the revenue of government but it will also require a dandy IT infrastructure, to address the database of increased assess, which is presently missing out in Indian states. IT infrastructure will play a vital role in implementing IGST as union will electronically distribute IGST to states. To grapple the data base a strong network is required which is managed by GSTN (Goods and Service Tax Network) proposed in GST. GSTN has major responsibility to tackle biggest challenge of IT infrastructure in a time bound manner.

### **OTHER ISSUES**

- Union government need to coordinate with 30 states for “input credit” due to transfer of credit in SGST.
- State tax officials training and development before implementation of GST.
- Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.
- Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. (A study commissioned by Curtin university of technology)

### **CONCLUSION**

Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. GST affected the life of a common man as they were the ultimate consumers. Many things become cheaper and many things become costly. There are various challenges in way of GST implementation as discussed above in paper but with the passage of time and proper implementation of GST could overcome these challenges. A well designed GST Policy can bring a qualitative change in the tax system of India. Massive IT Software has been developed for the successful implementation of GST to bring things online. Revenue officials are also being trained for turning GST into areality. But, the actual performance and results can be visualized once GST is implemented.

## REFERENCES

- [1]. Ehtisham Ahamad and Satya Poddar(2009), “Goods and Service Tax Reforms and Intergovernmental Consideration in India”, “Asia Research Center”,LSE,2009
- [2]. Dr. R. Vasanthagopal (2011), “GST in India: A Big Leap in the Indirect Taxation System”, International Journal of Trade, Economics and Finance, Vol. 2, No. 2, April 2011.
- [3]. AgogoMawuli (2014): “Goods and Service Tax- An Appraisal”Paper presented at the the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby,29-30.
- [4]. [https://en.wikipedia.org/wiki/Goods\\_and\\_Services\\_Tax\\_\(India\)\\_Bill](https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)_Bill)
- [5]. Pinki, Supriya Kamna, RichaVerma(2014), “Good and Service Tax – Panacea For Indirect Tax System In India”, “Tactful Management Research Journal”,Vol2, Issue 10, July2014
- [6]. Dr. P Vijayaraghavan1 and Mr. Muhammed Unais (April 2017) Studied “Impact of GST on Indian Economy.
- [7]. <Http://www.granthaalayah.com>
- [8]. [www.gstindia.com/basics-of-gst-implementation-in-india/](http://www.gstindia.com/basics-of-gst-implementation-in-india/)
- [9]. <http://fintrak.com>
- [10]. [www.gst.caknowledge.ac.in](http://www.gst.caknowledge.ac.in)
- [11]. <http://www.financialexpress.com/>
- [12]. [www.quora.com/](http://www.quora.com/)
- [13]. [www.allresearchjournal.com](http://www.allresearchjournal.com)